

Message Text

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ACTION EB-03

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FM AMEMBASSY LIMA

TO SECSTATE WASHDC IMMEDIATE 0581

C O N F I D E N T I A L L I M A 4853

LIMDIS

E.O. 11652: GDS

TAGS: EIND, ENRG, EMIN, PE

SUBJ: CUAJONE NEGOTIATIONS SUFFER RELAPSE

REF: LIMA 4407 AND PREVIOUS

1. SUMMARY: WISE TOLD AMBASSADOR JUNE 17 THAT FOUR CO-OWNERS SERIOUSLY COMPROMISED BY INEPTNESS AND SUSPICION ON BOTH SIDES AND THAT NEGOTIATIONS IN VERY SERIOUS PHASE. WISE SAID BOARDS OF DIRECTORS OF FOUR CO-OWNERS OF SPCC ENRAGED BY CHASE MANHATTAN CABLE, SENT WITHOUT CLEARANCE TO MINERO-PERU, STATING THAT CHASE WAS WILLING ACCEPT ONE OF NEGOTIATING CONDITIONS WHICH HAD BEEN REJECTED BY FOUR CO-OWNERS. THIS GAFF SO INCENSED CO-OWNERS THEY NOW CONSIDERING SERIOUSLY WITHDRAWING FROM NEGOTIATIONS AND OFFERING PERU MAJORITY BUY-OUT. DUE SENSITIVITIES INVOLVED, WISE REQUESTS DEPARTMENT CONTACT BARBER OF ASARCO ASAP TO DETERMINE HIS POSITION AND RELAY VIEWS TO WISE VIA EMBASSY. FURTHER, MINEROPERU HAS ALSO LAID DOWN NEW AND ONEROUS CONDITIONS FOR NON-U.S. SUPPLIERS WHICH THEY MAY NOT BE ABLE ACCEPT. END SUMMARY.

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2. REPORTING BIZARRE SERIES OF DEVELOPMENTS, WISE TOLD

AMBASSADOR THAT AFTER DAYS OF INTENSE NEGOTIATIONS, MINEROPERU EARLY LAST WEEK ACCEPTED IDEA OF TOLLING WIREBARS THROUGH ILO REFINERY RATHER THAN CATHODES, AND WISE THOUGHT FINAL HURDLE TO SETTLEMENT OVERCOME. AT THIS POINT, FOUR CO-OWNERS REJECTED IDEA BECAUSE THEIR FINANCIAL BACKERS WOULD NOT ACCEPT IT (INCLUDING CHASE), AND MINEROPERU WAS SO INFORMED. THEN, WITHOUT CLEARANCE FROM ANYONE, AN INEXPERIENCED CHASE OFFICIAL SENT A DIRECT TELEX TO MINEROPERU INFORMING LATTER THAT CHASE HAD NO OBJECTION TO WIREBARS AFTER ALL. THIS ENRAGED ALL FOUR BOARDS OF DIRECTORS OF CO-OWNERS SINCE IT THOROUGHLY COMPROMISED THEM AND WISE IN EYES OF MINEROPERU. INTERNATIONAL TELEPHONE CALLS BETWEEN WISE AND CO-OWNERS THEN TRANSPIRED, WITH HARSH WORDS BEING SPOKEN BY NEW YORK PARTIES ABOUT CHASE, AND WISE SAYS RECORDS THESE CONVERSATIONS (WHICH WISE BELIEVES WERE BUGGED) HOPEFULLY INDICATE TO MINEROPERU THAT WISE AND HIS FELLOWS ACTING IN GOOD FAITH. HOWEVER, THIS INCIDENT HAS SO ANNOYED BOARDS OF DIRECTORS, MANY MEMBERS OF WHICH HAVE OPPOSED CUAJONE IDEA SINCE ITS INCEPTION IN 1969--WISE MENTIONED CERRO DE PASCO, PRESIDENT OF ASARCO (BUT NOT BARBER), AND PRESIDENT OF NEWMONT MINING--THAT CO-OWNERS SERIOUSLY CONSIDERING THROWING IN THE TOWEL. WISE RELUCTANT SPEAK TO THEM ON BUGGED LINES AND THUS ASKS DEPARTMENT ASSISTANCE IN ASCERTAINING THEIR VIEWS, AFTER TEMPER HAVE COOLED AND THEY "HAVE COME DOWN TO EARTH."

3. WITH REGARD TO FOREIGN FIRMS, MINEROPERU NOW HAS COME UP WITH WHOLE SERIES OF NEW CONDITIONS, INCLUDING (AMONG THE MOST ONEROUS) THE FOLLOWING: A) SINCE ALL WIREBARS (AGAINST ASARCO'S ADVICE) WILL BE SOLD TO U.S. COMPANIES, THREE EUROPEAN COMPANIES WHO DO NOT HAVE REFINERIES WILL BE FORCED TO ASK MINEROPERU FOR DISCOUNT ON PRICES OF TOLLING IF SCHEME IS TO BE ECONOMICAL FROM THEIR POINT OF VIEW; B) EUROPEAN BUYERS' PAYMENTS ARE TO BE MADE CIF EUROPEAN PORTS, BUT THIS CONDITION NOT FEASIBLE FOR CATHODES BECAUSE OF TECHNICAL REASONS; C) MINEROPERU HAS REMOVED CLAUSE FAVORABLE TO FOREIGN COMPANIES, WHICH STATED COST OF REFINING WOULD BE BASED ON WORLD COPPER PRICE, AND HAS SUBSTITUTED HARSHER CLAUSE BASED ON LABOR AND FUEL

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COSTS AS WELL.

4. WISE SUBSEQUENTLY PRESENTED OVERVIEW TO EMBASSY OFFICERS, NOTING THAT WITH COUPLE OF EXCEPTIONS MINEROPERU NEGOTIATING TEAM BOTH IGNORANT AND FEARFUL OF REACHING FINAL ACCORD AND ARE THUS COMING UP WITH CONSTANT STREAM OF NEW CONDITIONS AND THAT FOREIGNERS' PATIENCE ALMOST AT AN END. ONE OR TWO KEY MINEROPERU OFFICIALS ACTUALLY WISH NEGOTIA-

TIONS TO FAIL, AND HEAD OF TEAM, BRICENO, DETESTS MINISTER OF MINES FERNANDEZ MALDONADO AND HAS DONE BEST KEEP LATTER IN DARK ABOUT REAL PROBLEMS ENCOUNTERED. FINALLY, WISE HAS BEEN GIVEN VERY LITTLE NEGOTIATING ROOM BY BARBER, WHO HAS ORDERED HIM NOT TO MAKE ANY COUNTERPROPOSALS, BUT MERELY TO SIT BACK AND LISTEN TO MINEROPERU REQUESTS. THIS NEGOTIATION WILL TAKE PLACE JUNE 18, AND WAS TO HAVE BEEN THE FINAL ROUND, ALTHOUGH UNDER PRESENT CONDITIONS IT OBVIOUSLY WILL NOT BE. WISE SAID HE PERSONALLY NOT TOO HOPEFUL THAT BREAK-THROUGH CAN BE ACHIEVED IN TIME BEFORE PATIENCE ON BOTH SIDES RUNS OUT, AT WHICH POINT FOUR CO-OWNERS WOULD THEN OFFER ALL OF SPCC TO PERU, WITH SPCC POSSIBLY RETAINING MINORITY SHARE AND/OR TECHNICAL ASSISTANCE AGREEMENT. (WISE REVEALED THAT THIS POSSIBILITY WAS ALMOST PUT FORWARD LAST APRIL, BUT DISCARDED AT LAST MINUTE BY BARBER DURING NEGOTIATIONS HERE, AND HAS NEVER BEEN FAR FROM CO-OWNERS' MINDS.)

6. COMMENT: WISE, WHO SURPRISINGLY CALM AFTER AN ARDUOUS WEEK, SAID HE WILL TRY TO NEGOTIATE, BUT SEES NEW DEVELOPMENT MAKING EVENTUAL ACCORD EVEN HARDER TO REACH. WISE CAME IN ON HIS OWN VOLITION MERELY TO INFORM EMBASSY AND WAS NOT BLOWING THE WHISTLE YET. THUS, WISE DID NOT BELIEVE EMBASSY SHOULD INTERVENE AT THIS TIME, A VIEW WE SHARE, BUT IF IT APPEARS THAT NEW YORK BACKERS OF PROJECT ARE REALLY SERIOUSLY CONTEMPLATING ABANDONING NEGOTIATIONS, AND OFFER GOP SOME SORT OF BUY-OUT FORMULA, IT MAY BE HELPFUL FOR AMBASSADOR TO APPROACH GOP AT A HIGH LEVEL TO EXPLAIN OUR POSITION AND EXPRESS HOPE THAT MUTUALLY SATISFACTORY SOLUTION CAN BE FOUND. WE WOULD APPRECIATE ANY DEPARTMENT VIEWS ON THIS SORRY SCENARIO IN

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ADDITION TO REPORT ON BARBER'S POSITION.
DEAN

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NNN

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